

AR27

Steetley Industries Limited



Annual Report 1973

STEETLEY INDUSTRIES LIMITED
CONSOLIDATED STATEMENT OF SOURCE
AND USE OF WORKING CAPITAL

Six Months Ended June 30
1973 1972
\$ \$

SOURCE OF
WORKING CAPITAL

Net earnings for the period	682,453	387,450
Charges not requiring cash outlay —		
Gain on sale of assets	(21,401)	—
Depreciation and depletion	502,092	454,008
Increase in Minority Shareholders' Interest	13,308	8,515
	<u>1,176,452</u>	<u>849,973</u>
Decrease in Mortgages Receivable	1,170	14,143
	<u>1,177,622</u>	<u>864,116</u>

USE OF WORKING
CAPITAL

Dividends Paid	199,500	171,000
Purchase of Fixed Assets .	183,862	380,945
Cash Surrender Value of Life Insurance	6,858	7,723
Payment of Long Term Bank Loan	50,000	100,000
Purchase of Shares of Subsidiary	815,680	—
Decrease in Mortgages Payable	4,069	—
	<u>1,259,969</u>	<u>659,668</u>

Increase (decrease) in Working Capital	(82,347)	204,448
Working Capital Beginning of Period	8,472,310	7,982,565
Working Capital Purchased .	520,058	—
Working Capital End of Period	<u>8,910,021</u>	<u>8,187,013</u>

AR27

INTERIM REPORT

FOR SIX MONTHS ENDED
JUNE 30, 1973

Steetley Industries Limited





CanCorp

TO OUR SHAREHOLDERS:

We report below the unaudited consolidated statement of earnings of the Company for the six months ended June 30, 1973, together with comparative figures for 1972.

Earnings again improved, reflecting the increasing demand for our products and services in the present strong state of the Canadian economy, although as expected the percentage increase over last year, was not as great as that recorded in the first quarter. The results of Northern Canada Supply Limited are included for 5 months and we are very pleased with the performance of this acquisition and particularly the co-operation received from our new employees.

It appears that apart from isolated stoppages, the construction industry in Canada will not be plagued by strikes in 1973 and activity is strong. Mills Steel Products is enjoying a good year and it has been necessary to increase manufacturing space. To achieve this, the Hamilton Branch is being moved from Woodward Avenue to a new warehouse to be erected on property already owned on Gage Avenue in Hamilton.

The distribution companies in the Group are all ahead of last year. Control of Accounts Receivable and Inventory levels, essential for the profitability of these companies is being well maintained.

Working capital now at \$8,900,000 has increased \$438,000 since the end of 1972. The new lower income tax rates recently approved by Parliament will only benefit Steeley to a small degree due to the type of businesses we operate.

The following management changes have recently been announced. Mr. P. S. Pratt, formerly Marketing Manager has been appointed Vice-President & General Manager of Vallance Brown & Co. Limited and Northern Canada Supply Limited. Mr. John Gabriel, C.A. formerly Controller of Vallance Brown is now Manager — Corporate Development for the Group. In Vancouver, Mr. John Niven who has been with Gough & Company for 27 years, latterly as Sales Manager has been promoted to General Manager of that company.

We forecast good earnings for the balance of 1973 with perhaps some levelling off in general business due to the present trend to higher interest rates in Canada.

CONSOLIDATED STATEMENT OF EARNINGS

	<u>Six Months Ended June 30th</u>	
	<u>1973</u>	<u>1972</u>
	\$	\$
Sales	27,723,131	20,131,965
Cost of Sales	25,836,643	18,946,588
	1,886,488	1,185,377
Depreciation and Depletion	502,092	454,008
Profit from Operations	1,384,396	731,369
Investment Income	26,566	43,258
Gain on Sales of Assets	21,401	6,673
Profit Before Taxes on Income	1,432,363	781,300
Taxes on Income	724,200	378,100
	708,163	403,200
Minority Shareholders' Interest	25,710	15,750
NET EARNINGS FOR SIX MONTHS	682,453	387,450
Earnings per Common Share	72 cents	41 cents

J. S. Spearing

J. S. SPEARING
President

Hamilton, Ontario
August 1, 1973.



ANNUAL REPORT 1973

FINANCIAL HIGHLIGHTS

	1973	1972
Sales	\$ 60,914,000	\$ 43,734,000
Net Earnings	\$ 2,219,000	\$ 1,457,000
Net Earnings per Common Share	\$ 2.34	\$ 1.53
Dividends Declared — per Common Share	\$.45	\$.36
Capital Expenditures	\$ 1,402,000	\$ 1,225,000
Depreciation & Depletion	\$ 905,000	\$ 874,000
Working Capital — Year End	\$ 9,778,622	\$ 8,472,000

The Annual Meeting will be held at the Head Office of the Corporation, 605 James St. N., Hamilton, Ontario, on Friday, March 15, 1974 at 10:00 a.m.



**DIRECTORS,
EXECUTIVE OFFICERS
AND OTHER EXECUTIVES**

DIRECTORS

H. M. Griffith, Toronto, Ontario
D. H. Henderson, Hamilton, Ontario
T. E. Ladner, Q.C., Vancouver, British Columbia
J. Laird, Worksop, Notts, England
C. W. Lewis, Q.C., Toronto, Ontario
N. M. Peech, Worksop, Notts, England
C. G. Pirie, Freelon, Ontario
J. S. Spearing, F.C.A., Hamilton, Ontario

EXECUTIVE OFFICERS

N. M. Peech, Chairman of the Board
D. H. Henderson, Vice-Chairman of the Board
J. S. Spearing, F.C.A., President
H. E. Baker, F.C.A., Secretary-Treasurer

OTHER EXECUTIVES

MINERALS GROUP

D. W. L. Fairbairn, B.Sc., P. Eng.,
Vice-President — Minerals Group

CANADA CRUSHED STONE

A. J. DeMarchi, Vice-President — Operations
R. M. Lennie, Vice-President — Sales

DISTRIBUTION GROUP

G. G. Dunnigan, B.A., M.B.A.,
Vice-President — Distribution Group

VALLANCE BROWN & CO. LIMITED

NORTHERN CANADA SUPPLY LIMITED

P. S. Pratt, Vice-President & General Manager

FLECK BROS. LIMITED

GOUGH & COMPANY LTD.

J. W. Miller, P. Eng., Executive Vice-President

MILLS STEEL PRODUCTS LIMITED

P. G. Allanson, Vice-President & General Manager

CORPORATE INFORMATION

HEAD OFFICE Harbour Administration Building
Hamilton, Ontario.

DIVISIONS **Canada Crushed Stone — Dundas Quarry**
Produces high grade dolomite stone for metallurgical, agricultural and commercial uses.

Queenston Quarries — Niagara Falls, Ontario
Produces commercial crushed stone, "Queenston Limestone" building stone, and asphaltic concrete.

SUBSIDIARY COMPANIES **Vallance Brown & Co. Limited — Hamilton, Ontario**
Distributes industrial, safety and electrical supplies in Southern Ontario. A steel service centre serves Toronto and the Niagara Peninsula.

Northern Canada Supply Limited — Oshawa, Ontario
Distributes industrial supplies in Northeastern and South-eastern Ontario and Northwestern Quebec.

Fleck Bros. Limited — Vancouver, British Columbia
Distributes industrial, and safety supplies in British Columbia, Alberta and The Yukon.

Gough & Company Ltd. — Vancouver, British Columbia
Distributes electrical supplies in British Columbia and The Yukon.

Mills Steel Products Limited — Hamilton, Ontario
Manufactures concrete forming hardware, scaffolding, shores, and fasteners for the automotive industry.

Ritchie Cut Stone Holdings Limited — Hamilton, Ontario
An investment holding company.

ASSOCIATED COMPANY **National Slag Limited — Hamilton, Ontario**
Processes blast furnace slag into aggregates for road construction and civil engineering.

REGISTRAR AND TRANSFER AGENTS **National Trust Company Limited — Toronto, Ontario**

AUDITORS **Coopers & Lybrand**

Steetley Industries Limited

DIRECTORS' REPORT

To the Shareholders of
Steetley Industries Limited

I am pleased to present on behalf of the Board of Directors the Twenty-third Annual Report of the Company including the Consolidated Balance Sheet and related financial statements for the year ended December 31, 1973 together with the auditors' report to the Shareholders.

FINANCIAL

The Company achieved record sales and earnings for the fourth successive year with all subsidiaries and divisions participating in the increase. The results include the sales and earnings for the first time of Northern Canada Supply Limited, acquired as of January 31, 1973.

Sales rose to \$60,913,673, an increase of 39% over \$43,734,391 recorded in 1972. Earnings from operations increased to \$4,103,332 from \$2,313,374 last year, an improvement of 77%.

Net earnings after income taxes and minority shareholders' interest rose by 52% to \$2,219,570 from \$1,457,111, with investment income being slightly lower than that earned in 1972 plus the negative effect of higher income tax rates. The majority of the Company's operations are in quarrying and distribution which do not qualify for the lower rates of income tax applicable to manufacturing companies. It is questionable as to how long one class of business should be expected to support another class through income tax policies. Earnings per common share amounted to \$2.34 compared with \$1.53 last year.

The Company owns a one-third interest in National Slag Limited. This associated Company, which obtains its product from the steel industry, had a satisfactory year and paid the same dividend as in 1972.

Your Company continues to enjoy a strong financial position with working capital of \$9,778,622. Shareholders' Equity, with a book value of \$13.96 per common share, rose by \$1,803,882 during the year.

OPERATIONS

Canada Crushed Stone and Queenston Quarries

Total stone tonnages shipped were somewhat lower than 1972, but sales of more profitable mixes resulted in increased earnings for both Divisions.

As previously announced, your Directors approved a \$4 million capital expenditure for a new secondary crushing and screening plant embodying the latest techniques at the Canada Crushed Stone quarry located on #5 Highway. We will gradually phase out the Brow Plant located in Dundas, which has been in continuous operation since the early 1920's. The erection of the new plant is proceeding slightly behind schedule and we are hopeful that in spite of spiralling costs of capital equipment, the final cost will be close to the original estimate. The new plant should be operational toward the end of 1974.

Industrial and Electrical Products Distribution

All companies performed well and, with the inclusion of Northern Canada Supply noted earlier, this Group earned 60% of the Company's operating profits compared with just over 50% in 1972. We foresee further opportunities for growth in this field and it is an exciting and challenging time for all our employees.

New branches were opened during the year as follows:

British Columbia	Kamloops	Fleck and Gough-Combined
Alberta	Edmonton	Fleck
Ontario	Kirkland Lake	Northern Canada Supply-Electrical

We now have 30 strategically-located branches in the Provinces of Ontario, Quebec, Alberta, British Columbia and The Yukon. We are actively assessing the economics of opening new branches and reviewing possible further acquisitions.

The Steel Service Centre at Vallance Brown was particularly busy and its activities are presently limited by supplies from the steel mills.

In addition to expanding distribution sales to the home market, we have also successfully negotiated a number of export shipments and this could well be a growing facet of the business.

We are very pleased with our latest acquisition, Northern Canada Supply, and particularly the support and enthusiasm received from all its employees. The accounting and administrative functions have been centralized with those of Vallance Brown in Hamilton and the two companies complement each other well and are working in harmony.

Special attention is being directed in our distribution activities to ensure tight control of inventories and

receivables so essential for success in this type of business.

Mills Steel Products Limited

This company has developed into a vibrant member of the Steetley Group with young and aggressive managers — substantial gains were recorded over 1972. Prospects for 1974 look even brighter given a stable economy and labour peace in the construction trades, where major contracts come up for renewal in British Columbia.

A new branch has been opened in Edmonton, Alberta in conjunction with the Fleck branch noted above and the Hamilton branch has been moved to a new location to give more operating space in the Hamilton manufacturing plant.

New products, both manufactured and resale, are being developed in addition to the design and fabrication of new machinery by our own staff. A unique, completely automated block binding machine is the latest addition to our equipment.

DIVIDENDS

Regular quarterly dividends were paid during the year totalling 45¢ per share, with a dividend of 12¢ per share declared for the first quarter of 1974.

MANAGEMENT

A number of changes have been made to strengthen the management of your Company.

Mr. Gerald G. Dunnigan, B.A., M.B.A., has recently been appointed Vice President — Distribution and Mr. Dennis Fairbairn, B.Sc., P.Eng., has joined the Company as Vice President — Minerals. Both these gentlemen have over 20 years' experience in their respective fields and bring with them new expertise.

Mr. Philip S. Pratt has been promoted to Vice President & General Manager of Vallance Brown & Co. Limited and Northern Canada Supply Limited; Mr. John Niven, with 27 years' service at Gough & Company Ltd., is now General Manager of that company and Mr. John Gabriel, C.A., joined head office from Vallance Brown & Co. Limited as Manager — Corporate Development.

During the year Mr. J. Carl Burd retired as a Director of the Company and as Vice President & General Manager of the Queenston Quarries Division after 28 years' outstanding service. We wish him many happy

years of retirement so richly deserved. His wise counsel is still available to the Company in a consulting capacity.

GOVERNMENT AND BUSINESS

This year the Ontario Government introduced further legislation affecting the Niagara Escarpment and created the Niagara Escarpment Commission. The Commission is to study and recommend development and use of the escarpment which extends from Queenston to Tobermory. Until its report is completed, which may require several years, the uncertainty of planning has the practical effect of freezing future extension of Queenston Quarries. This quarry, which has operated in the area since 1835, has been seeking for two years to rezone some of its land for necessary expansion. At the present time it is impossible to predict whether our continuing efforts will be successful.

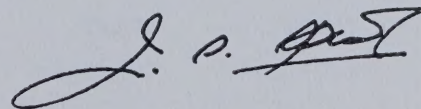
PROSPECTS

1974 is a most difficult year to forecast. The world energy crisis coupled with increasing inflation and high interest rates suggest more difficult times ahead.

To date, apart from adverse quarrying weather affecting the quarry divisions, all companies are busy and in good shape for the future.

It is with pride that we acknowledge the contribution of over 1,000 employees to our success and look forward to working with them in harmony during the challenging years that lie ahead. The Directors also express their appreciation for the continuing confidence and support extended by customers and suppliers.

On behalf of the Board of Directors,



J. S. Spearing
President

Hamilton, Ontario
February 8, 1974.



CONSOLIDATED BALANCE SHEET

as at December 31

ASSETS

CURRENT ASSETS

	1973	1972
Cash	\$ 165,881	\$ 176,416
Short-term investments — at cost (quoted market value — 1973 — \$55,438; 1972 — \$1,169,140)	55,438	1,175,000
Accounts receivable	10,589,364	7,499,420
Accounts receivable — Parent company	44,512	38,421
Inventories — at the lower of cost or net realizable value	10,695,298	8,193,904
Prepaid expenses	91,555	96,199
	21,642,048	17,179,360

DEFERRED CHARGES AND OTHER ASSETS

Cash surrender value of life insurance	101,138	93,719
Investment in National Slag Limited shares	12,500	12,500
Mortgages receivable	148,350	149,570
Scaffold equipment — at cost less amounts written off	331,961	297,328
	593,949	553,117

FIXED ASSETS (Note 2)

5,113,469	4,623,433
\$ 27,349,466	\$ 22,355,910

SIGNED ON BEHALF OF THE BOARD — J. S. Spearing, Director; D. H. Henderson, Director

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES	1973	1972
Bank advances	\$ 4,147,301	\$ 3,477,119
Accounts payable and accrued liabilities	5,799,089	4,826,388
Loan payable — Parent company	800,000	—
Income and other taxes	1,117,036	403,543
	<u>11,863,426</u>	<u>8,707,050</u>
 OTHER LIABILITIES		
Deferred income taxes	312,300	267,500
Long-term bank loan	1,325,000	1,500,000
Mortgages payable	186,498	17,500
Minority interest in net assets of subsidiary company	398,365	403,865
	<u>2,222,163</u>	<u>2,188,865</u>
 SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized		
5,000 6% Cumulative redeemable (at \$105) sinking		
fund shares of a par value of \$100 each		
1,000,000 Common shares without nominal or par value		
Issued		
950,000 Common shares	95,000	95,000
RETAINED EARNINGS	13,168,877	11,364,995
	<u>13,263,877</u>	<u>11,459,995</u>
	<u>\$ 27,349,466</u>	<u>\$ 22,355,910</u>



CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

for the years ended December 31.

	1973	1972
SALES (Note 4)	\$ 60,913,673	\$ 43,734,391
Earnings from operations before the following charges:	5,008,507	3,187,553
Depreciation	877,111	843,534
Depletion	28,064	30,645
	905,175	874,179
Earnings from operations	4,103,332	2,313,374
FINANCIAL		
Investment income	211,599	238,393
Gain on sale of assets	15,714	67,804
	227,313	306,197
Earnings before taxes on income and minority shareholders' interest	4,330,645	2,619,571
Taxes on income	2,048,600	1,124,300
	2,282,045	1,495,271
Minority shareholders' interest	62,475	38,160
NET EARNINGS FOR THE YEAR (Note 4)	2,219,570	1,457,111
RETAINED EARNINGS — BEGINNING OF YEAR	11,364,995	10,249,884
Excess of book value of shares purchased over cost	11,812	—
	13,596,377	11,706,995
Dividends — Common	427,500	342,000
RETAINED EARNINGS — END OF YEAR	\$ 13,168,877	\$ 11,364,995

Steetley Industries Limited and Subsidiaries

CONSOLIDATED STATEMENT OF SOURCE AND USE OF WORKING CAPITAL for the years ended December 31

	1973	1972
SOURCE OF WORKING CAPITAL		
Net earnings for the year	\$ 2,219,570	\$ 1,457,111
Charges not requiring cash outlay —		
Gain on sale of assets	(15,714)	(67,804)
Depreciation and depletion	905,175	874,179
Deferred income taxes	44,800	59,900
Increase in minority interest	(5,500)	21,386
	<hr/> 3,148,331	<hr/> 2,344,772
Decrease in mortgages receivable	1,220	19,711
Proceeds on disposal of fixed assets	105,024	182,335
Increase in mortgage payable	168,998	—
	<hr/> 3,423,573	<hr/> 2,546,818
 USE OF WORKING CAPITAL		
Payment of bank loan	175,000	313,024
Purchase of shares of subsidiaries	849,515	—
Purchase of fixed assets	905,196	1,225,108
Purchase of fixed assets of a subsidiary	496,335	—
Dividends paid	427,500	342,000
Net additions to scaffold equipment	117,623	148,957
Decrease in mortgages payable	—	17,950
Increase in cash surrender value of life insurance	7,419	10,034
	<hr/> 2,978,588	<hr/> 2,057,073
 INCREASE IN WORKING CAPITAL	 \$ 444,985	 \$ 489,745
 WORKING CAPITAL — BEGINNING OF YEAR	 \$ 8,472,310	 \$ 7,982,565
Working capital purchased	861,327	—
	<hr/> 9,333,637	<hr/> 7,982,565
Increase in working capital	444,985	489,745
 WORKING CAPITAL — END OF YEAR	 \$ 9,778,622	 \$ 8,472,310



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 1973

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and its subsidiaries. On January 25, 1973 the company purchased all of the issued and outstanding shares of Northern Canada Supply Limited. The results of operations for the acquired company and its subsidiaries are included from the date of acquisition.

2. FIXED ASSETS

These are classified as follows:

	1973			1972	
	Cost	Accumulated Depletion	Accumulated Depreciation	Net	Net
Land	\$ 496,270	\$ —	\$ —	\$ 496,270	\$ 367,424
Buildings	2,821,967	—	1,039,798	1,782,169	1,544,005
Plant and equipment	9,293,414	—	6,952,609	2,340,805	2,155,925
Leasehold improvements	106,284	—	80,549	25,735	59,525
	<u>12,221,665</u>	<u>—</u>	<u>8,072,956</u>	<u>4,148,709</u>	<u>3,759,455</u>
Stone quarries	1,295,515	827,025	—	468,490	496,554
	<u>\$ 14,013,450</u>	<u>\$ 827,025</u>	<u>\$ 8,072,956</u>	<u>\$ 5,113,469</u>	<u>\$ 4,623,433</u>

The construction of a new secondary crushing and screening plant has been authorized at a total cost of \$4,000,000. Of this total, \$1,660,000 has been committed for expenditure in 1974.

3. CONTINGENT LIABILITIES

The company is contingently liable as guarantor of loans to employees of a subsidiary aggregating \$72,677.

4. STATUTORY INFORMATION

(a) Sales by major business classifications are as follows:

Distribution	\$ 54,402,685
Minerals	6,510,988
	<u>\$ 60,913,673</u>

(b) Remuneration of directors and executive officers for the year was \$205,600 (1972 — \$235,595).

(c) Interest on the long-term bank loan for the year was \$164,838.

(d) Earnings per common share were \$2.34 in 1973 and \$1.53 in 1972.

AUDITORS' REPORT

COOPERS & LYBRAND

CHARTERED ACCOUNTANTS

TELEPHONE (416) 525-0002

105 MAIN STREET EAST

HAMILTON, ONTARIO, CANADA

L8N 1G6

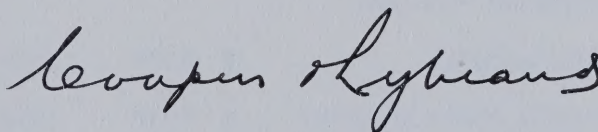
IN PRINCIPAL AREAS
OF THE WORLD

TO THE SHAREHOLDERS,
STEETLEY INDUSTRIES LIMITED

We have examined the consolidated balance sheet of Steetley Industries Limited and subsidiaries as at December 31, 1973 and the consolidated statements of earnings and retained earnings and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and use of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

January 22, 1974

A handwritten signature in dark ink, appearing to read "Coopers & Lybrand", is written in a cursive style.



STATISTICAL SUMMARY

Dollars in thousands except per share statistics

	1973	1972	1971	1970	1969	1968	1967
OPERATING RESULTS							
Sales	\$ 60,914	43,734	37,660	19,786	15,881	14,052	6,298
Depreciation & Depletion	\$ 905	874	760	569	483	531	541
Earnings before Taxes	\$ 4,330	2,619	2,270	1,719	1,277	1,738	983
Taxes on Income	\$ 2,049	1,124	1,039	829	625	904	441
Minority Interest	\$ 62	38	24	37	38	37	—
Net Earnings	\$ 2,219	1,457	1,207	853	614	797	542
FINANCIAL POSITION							
Working Capital	\$ 9,779	8,472	7,983	7,690	5,767	5,473	4,472
Property, Plant & Equipment	\$ 5,113	4,623	4,315	3,507	2,981	2,864	2,685
Other Assets	\$ 22,236	17,733	15,669	12,079	8,199	8,363	5,419
Total Assets	\$ 27,349	22,356	19,984	15,586	11,180	11,227	8,104
Long Term & Other Liabilities	\$ 2,222	2,189	2,438	2,526	674	667	90
Shareholders' Equity	\$ 13,264	11,460	10,345	9,144	8,526	8,126	7,348
PER SHARE							
Net Income	\$ 2.34	1.53	1.27	.90	.65	.84	.57
Dividends	\$.45	.36	.29	.24	.24	.24	.24
Book Value	\$ 13.96	12.06	10.89	9.63	8.97	8.55	7.73

